TALKING POINTS FOR:

THE NEGATIVE IMPACT OF PRIVATE ACCOUNTS ON FEDERAL DEBT, SOCIAL SECURITY SOLVENCY, AND THE ECONOMY

Overview: The President's Plan for Social Security Private Accounts.

- Private accounts require a massive increase in federal debt.
- Private accounts weaken Social Security solvency.
- Private accounts do not increase national saving and could lower it.
- The President's full plan would sharply cut guaranteed Social Security benefits.

Chart 1: The President's Private Accounts Plan Would Cost $4.9 Trillion in the First Twenty Years

- The Administration estimates that the President's private accounts plan would add $754 billion to the public debt in the current budget window (2006-2015).

- Because the plan doesn't start until 2009 and then phases in gradually, the true costs are actually much higher. Vice President Cheney recently conceded that the plan would cost "trillions."

- The plan would add an estimated $1.4 trillion of public debt in the first ten years (2009-2018), followed by another $3.5 trillion in the second decade (2019-2028).

- The Administration's budget includes zero funding for private accounts.

Chart 2: The President's Private Accounts Plan Would Lead to a Large and Sustained Increase in Debt

- The President's plan would require additional government borrowing to make up for payroll tax revenues diverted to private accounts.

- The increases in debt are not simply transition costs that go away. The additional debt would continue to grow relative to the size of the economy, reaching 35 percent of gross domestic product (GDP) by 2060.

- Federal debt held by the public was 37 percent of GDP at the end of 2004.

- Thus, starting from today's level, private accounts would double the size of federal debt to over 70 percent of GDP – a level of debt not seen since the end of World War II.

Chart 3: The President's Private Accounts Plan Would Deplete the Social Security Trust Fund by 2030

- Diverting payroll tax revenues weakens the Social Security Trust Fund. Private accounts will consume $1.4 trillion of trust fund assets in the first 10 years, and an additional $3.5 trillion of assets in the second decade.

- Private accounts will move up the date when the trust fund can no longer pay full benefits by about 11 years from 2041 to 2030.

Table 1: The President's Private Accounts Plan Would Increase the Long-Term Social Security Shortfall

- We all recognize the long term fiscal imbalance of the Social Security Trust Fund. As a senior Administration official recently acknowledged, however, the President's private accounts do absolutely nothing to address this imbalance.

- The President's private accounts plan would add another $1.6 trillion in present value to Social Security's estimated $4.0 trillion shortfall over the next 75 years. ("Present value" is the amount of money that would be needed today to cover the shortfall over the next 75 years).

- The $1.6 trillion is the difference between the $4.7 trillion the trust fund would lose from payroll tax revenues diverted to private accounts and the $3.1 trillion the trust fund would save from the "privatization tax" that reduces guaranteed benefits for those who choose private accounts.

- The President's private accounts plan would turn a $4.0 trillion shortfall into a $5.6 trillion shortfall. The claim by some that borrowing trillions now under the President's plan eliminates trillions in future Social Security liabilities is wrong.

Chart 4: The President's Private Accounts Plan Would Not Increase National Saving

- National saving is the key to economic growth and, as Federal Reserve Chairman Alan Greenspan recently testified, the best way to meet the fiscal challenges of the baby boom retirement.

- National saving has two components: private savings by households and business, and public saving by federal, state, and local governments.

- The new private saving created in private accounts would be completely offset by the increased government borrowing to fund those accounts, leaving no net increase in national saving.

- To the extent that people treat their private accounts as new saving and reduce their contributions to 401(k)s, IRAs, and other saving plans, the net increase in private saving would be smaller than the increase in government borrowing, and national saving would actually fall.

Chart 5: The President's Commission Plan Restores Solvency Through Deep Benefit Cuts: Private Accounts Would Not Make Up for the Loss.

- Although he has not offered a plan to restore Social Security solvency, the President has called the plan developed by his Commission to Strengthen Social Security a "good blueprint" for reform. That plan achieves solvency through large cuts in traditional Social Security benefits by changing the way initial retiree benefits are calculated.

- The Social Security Administration estimates that the Commission's proposal to substitute price indexing for wage indexing in determining initial benefits would cut guaranteed benefits by 46 percent for average-earners retiring in 2075.

- The Congressional Budget Office estimates that private accounts would not make up for the cuts in guaranteed benefits. Combined, the reduced guaranteed benefit and the likely private account benefit would be 45 percent less than the benefits promised under current law for an average-earner retiring in 2065; they would be 27 percent less than the benefits that actually could be paid from projected trust fund revenues in that year under current law.